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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday September 29, 1976

CI NIDC 76-229C



NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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Approved For Release 2005/06/09 : CIA-RDP79T00975A029300010048-4

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National Intelligence Daily Cable for Wednesday, September 29, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Situation Report

[REDACTED]

[REDACTED] The Syrians attacked the Palestinian and Lebanese
leftist strongholds of Falugha, Hammana, and Qurnayil [REDACTED]

[REDACTED]

[REDACTED] Christian forces moving south from Biskinta also hit
Aynturah and al Mutayn, two hotly contested former Christian
villages, in an effort to pin down and keep the Palestinians
divided. Aynturah and al Mutayn are especially important be-
cause they can be used to control the Beirut-Damascus road and
are a direct link between the Christian provisional capital at
Juniyah and eastern Lebanon.

[REDACTED] Heavy shelling continues in Beirut and around Tripoli.

Although the Syrian offensive has been expected for
some time, the Syrians have clearly seized on the Palestinian
commando attack last weekend on a hotel in Damascus as a pre-
text for resuming the fighting. Damascus radio has totally ig-
nored Fatah denials of complicity in the raid and have aired
demands for the first time calling for the removal of Yasir
Arafat as the head of Fatah and the Palestine Liberation Or-
ganization.

[REDACTED] Arafat sent urgent appeals yesterday to several Arab
leaders, including Egyptian President Sadat and Saudi King

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Khalid, accusing Syria of attacking without provocation and asking them to use their influence to stop the fighting. Sadat predictably denounced the Syrian offensive in a speech commemorating the anniversary of Nasir's death.

25X1 [] Sadat suggested in his speech that the Syrians may have staged last Sunday's Palestinian commando raid and again accused the Asad regime of trying to liquidate the Palestinian resistance and Lebanese leftists. Lebanese leftist leader Kamal Jumblatt, who arrived in Cairo on Monday for consultations with Sadat, was present while Sadat spoke.

25X1 [] Lebanese President Sarkis continued his round of meetings with Lebanese leaders in Beirut yesterday, but his efforts to breathe new life into the deadlocked tripartite talks have been stopped cold at least until the Syrians either obtain their military objectives in the Mount Lebanon area or the Palestinians agree to accept Syrian terms for a cease-fire.

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UK: Pound Still Declining

25X1 [] //The pound continued to decline yesterday, even after Prime Minister Callaghan's unusually stern speech to the annual Labor Party Conference. It fell to a low of \$1.63, before rebounding slightly to close at \$1.6355, down 4.5 cents from its Monday close.//

25X1 [] //The recovery came after Chancellor of the Exchequer Healey and Governor of the Bank of England Richardson delayed their departure for the Commonwealth finance minister's meeting in Hong Kong to meet with senior officials yesterday. Callaghan is being kept fully informed on the progress of these talks but a government spokesman said no statement was likely to be issued. Traders saw the consultations as a sign that the UK might enact some emergency measures to stem the pound's fall.//

25X1 [] //Although there are reports that the Bank of England re-entered the market yesterday after a 19-day hiatus, a sustained intervention effort is unlikely. Britain's foreign exchange reserves could be quickly exhausted, given the large

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sterling balances held abroad. Britain's \$1 billion in drawings against the \$5.3 billion standby credit also come due in early December.//

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[] //A number of measures to correct the economic situation are now apparently under consideration. These are aimed at either restricting imports or limiting the growth of the domestic money supply. General import controls still are not being seriously considered since they would not only invite retaliation by other countries but also would only postpone the need to bring about necessary structural changes. Selected import controls such as those imposed last week on television sets from Taiwan are more likely.//

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[] //Some left-wing Laborites are calling for higher corporation taxes in order to limit the public sector borrowing requirement and, consequently, growth in the money supply. This step is highly unlikely because it would be a tremendous blow to industrial confidence.//

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[] //A frequently cited alternative is an import deposit scheme similar to that recently imposed by Italy. Such a scheme would discourage imports, thus slowing the outflow of sterling. It would also absorb some of the excess liquidity in the private sector and would probably meet with less resistance from either the IMF or the EC.//

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[] //The measure could be supplemented by an additional IMF loan, which would provide reserves and require fiscal and monetary restraint on the part of London. Including the additional credits provided by the 45-percent increase in quotas agreed upon earlier in the year, Britain could borrow up to \$3.8 billion from the IMF.//

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[] //No consensus within the cabinet has yet been reached on what measures, if any, should be adopted to halt the fall of sterling. The import deposit scheme seems the most likely, although it is apparently opposed by Chancellor Healey and Trade Secretary Dell. Moreover, it is doubtful an import deposit scheme would be as effective in halting sterling's decline as it was the case of the decline of the Italian lira because of the large sterling balances held outside the UK.//

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[redacted] //In his tough speech yesterday, Callaghan emphasized again that the UK could no longer spend beyond its means and that the British would need to tighten their belts. He also stressed that tax cuts and massive public spending were no longer a viable option in guaranteeing full employment.//

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[redacted] //The Prime Minister gave notice to the trade unions and the Labor left wing that the government will not waver in its efforts to curb the rise in public spending and borrowing. At the same time, Callaghan provided some assurance to Britain's creditors, particularly the IMF, that his government will resist the demands of Laborites who are calling for a cancellation of the government's budget cuts already scheduled for the next fiscal year as well as further nationalization of British industry.

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CHINA: Earthquake Impact

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[redacted] //The recent earthquakes in China will retard industrial growth and end Chinese hopes of a good start for the five-year plan (1976 to 80).//

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[redacted] //The area affected is the third most important industrial area in China, after Manchuria and Shanghai. Some 3 to 4 percent of industrial production will be lost for up to two years.//

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[redacted] //The quake on July 28 (8.2 on the Richter Scale) probably was the worst of the century in China in terms of casualties and damage. The destruction of nearly all housing in the area--particularly at Tang-shan city (population 1 million) and Feng-nan County (population 400,000)--indicates that casualties were extremely high. Estimates of fatalities range from 100,000 to 800,000.//

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//The quake closed both rail lines into Manchuria, cut many roads, and disrupted port operations. Although most have now been restored to limited service, it will take a year or more to regain full capacity.//

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[redacted] Post quake priorities also affected water, road, and air cargoes. Hsin-kang, one of China's largest ports, was put out of operation, forcing diversion of ships to Dairen, Tsing-tao, and Shanghai, creating some congestion. By late August, however, ships were moving in and out of Hsin-kang port.

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[redacted] //A massive relief effort involving hundreds of thousands of soldiers and civilians from all over China got under way immediately after the shocks.//

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[redacted] //The Chinese now assert that transport, power, communications, and some industry in the area--notably cement and steel--have resumed partial operation; we believe such assertions are symbolic or at best exaggerated.//

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[redacted] //Compounding the problem, three large quakes hit Szechwan Province in west China in August. These quakes disrupted transportation but caused far fewer casualties and less industrial damage than the Tang-shan quake. Economic activity in much of the province slowed in late June when precautions began, fell precipitately during the quakes, and turned up only slowly afterwards.//

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[redacted] //Rebuilding will require an enormous investment in resources and time. Reconstruction and relief costs as well as production losses will total more than \$10 billion.//

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[redacted] //The balance of payments may suffer in the short run. Later, as the ports and inland transport facilities are cleared of relief priorities, China may increase petroleum exports to earn the hard currency needed to import additional steel and equipment.//

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[redacted] //At a minimum, five-year plan goals will have to be adjusted to include rebuilding Tang-shan and to offset production lost to the quakes.//

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UN: Gromyko's Speech

25X1 [] In his address to the UN General Assembly yesterday, Foreign Minister Gromyko invited the US to begin discussing ways to reduce Soviet and US military activity in the Indian Ocean. This marks the first such bid from a high-ranking Soviet leader.

25X1 [] Gromyko did not mention the US by name, but said the USSR was "ready to look, together with other powers," for ways of reducing the "military activity of nonlittoral states in the Indian Ocean."

25X1 [] He added that Moscow was also ready to "participate in consultations" for convening an international conference on the Indian Ocean, but only if the Soviet approach "is taken into account to the necessary degree." The Soviets are primarily seeking talks that would eliminate foreign military bases in the area.

25X1 [] The remainder of Gromyko's speech was devoted to disarmament, but he stuck closely to the themes expressed in General Secretary Brezhnev's keynote address to the Soviet party congress in February.

25X1 [] Gromyko again called for a reduction in the military budgets of the permanent states of the Security Council, a proposal the USSR introduced in the UN in 1973. He reiterated customary Soviet references to a non-use-of-force treaty, the elimination of nuclear weapons tests, and the dismantling of foreign military bases.

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[] Gromyko also:

--Called for resumption of the Geneva conference to settle the Arab-Israeli dispute.

--Called for the immediate admission of the Republic of Vietnam to the UN.

--Criticized US military programs and Secretary Kissinger's peace efforts in the Middle East and Africa.

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[] The Soviet foreign minister also took the opportunity to ask the Chinese to "normalize" relations. []

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PORTUGAL: Labor Movement

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[] Portugal's ruling Socialist Party may soon begin moves to set up a labor confederation separate from the Communist-dominated organization, which is pressing for a national congress to solidify its position.

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[] The Socialists have built up a substantial following in organized labor during the past year, but still cannot rival the organization and discipline of the Communists. One Socialist Party official has said it may take another year to build an organization capable of challenging the Communists.

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[] The Socialists do not want to wait that long and hope to use their control of the government to pass legislation unfavorable to the Communists. One of their first priorities will be to repeal the law permitting only one labor confederation, leaving them free to set up a rival non-Communist confederation. They expect to attract a number of uncommitted unions to such a new organization.

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[] Legislation will also be submitted to ensure free union elections by allowing voting during working hours and possibly by requiring that 60 percent of union members participate in the balloting. The Socialists hope that such restrictions will help break the Communists' control of many unions in which Communist slates have been elected by only 5 to 10 percent of the membership.

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[] The Communist-dominated Intersindical reports that nearly half of some 300 to 400 Portuguese unions are affiliated with it, whereas the non-Communists claim the allegiance of only 50 unions. The Communists apparently hope to use this advantage at a national congress to tighten their grip on labor.

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[] The Socialists originated the idea for a Congress in the hope of challenging the Communist hold on labor. The Communists soon gained the initiative, however, and have proposed rules designed to make the congress appear open and democratic, but which in fact would make any challenge to the Communists impossible. The Socialists and their allied unions have now refused to participate in any congress in which Intersindical plays the leading role.

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[] When the Communists took the congress idea for their own, the Socialists feared being forced either to accede to Communist domination or to take the blame for an eventual split in the labor movement. Public opinion, however, increasingly favors the Socialists, who have rejected Communist insistence that the sessions be restricted to all but the "progressive" press and are demanding an open congress. []

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PERU: Exchange Rate

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[] Peru has joined the growing number of Latin American countries that have instituted a crawling peg exchange rate, which allows frequent small changes in the exchange rate. Last week Peru devalued the sol twice by a total of less than 0.5 percent. Peru previously had devalued the sol only three times in 18 years, including a 31 percent devaluation on June 30.

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[] Peru's inflation rate soared to 24 percent last year and is increasing at an annual rate of 40 percent this year, following a 9 percent annual increase between 1970-74. Large government deficits, stagnant agricultural and industrial output, and harsh import restrictions have been the key elements in this escalation. The rise in domestic prices greatly stimulated imports and tended to discourage exports, contributing to the \$1 billion current-account deficits of the past two years and forcing the devaluation in June.

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[redacted] The new exchange rate policy apparently is intended to preserve most of the benefits achieved by the June devaluation. The consequent stabilization of foreign exchange expectations is likely to help avoid a recurrence of the heavy capital flight that occurred prior to that devaluation. Devaluation, a thorny political issue, will be less noticeable to the public.

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[redacted] Peru's new exchange rate policy follows precedents set by a number of other Latin American countries. [redacted]

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